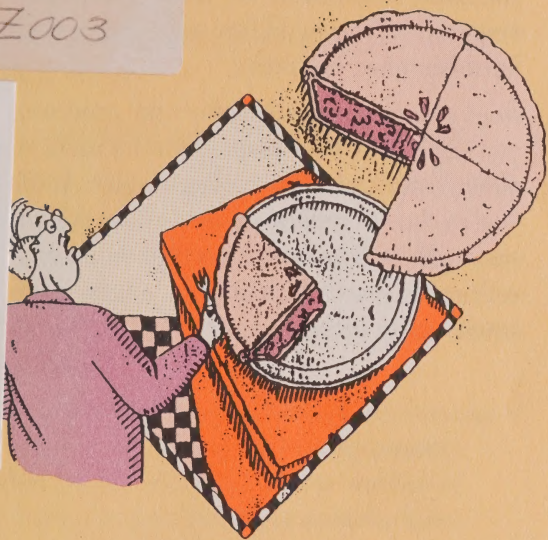


Retirement Planning

Key questions

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*What if your income is cut
by 75% when you retire?*



What if your income is cut by 75 per cent when you retire?

Could you live on that?

Not many of us could. Yet, unless you plan responsibly, you could face sudden economic hardship when you retire.

Start planning and saving for your retirement so you can handle your responsibilities when you're older. You're never too young to start. And if you're close to retirement now, every dollar you save today will make living a little easier in your retirement years. With interest, a little money saved can go a long way.

This information is presented by the Pension Commission of Ontario in co-operation with the Ministry of Citizenship, the Office for Senior Citizens' Affairs, the Ontario Women's Directorate, COSTI-IIAS Immigrant Services, the Ontario Council of Agencies Serving Immigrants, the National Congress of Italian Canadians, the Portuguese Social Service Centre, Chinese Information and Community Services, the Chinese Inter-Agency Network and the Greek Community of Metropolitan Toronto.

The Pension Commission of Ontario is responsible for monitoring private pension plans in the province of Ontario. These are pension plans established by employers for the benefit of employees. We at the Commission want to encourage individuals to take responsibility for financial retirement planning.

This booklet will help you get started by answering a few commonly asked questions about retirement savings. There is no substitute for professional advice. Use this information as a starting point.

Can you live comfortably if your income is cut by 75 per cent?

What is the Old Age Security (Basic) Pension?

You may be able to receive an Old Age Security (OAS) Pension in Canada if you:

- are a Canadian citizen or legal resident 65 years or older; and
- have lived in Canada for at least ten years after reaching age 18.

Canada has reciprocal social security agreements with a number of countries. These agreements mean that people who have lived or worked in another country may be able to meet the basic requirements for benefits in Canada or in the other country by totalling periods of residence to meet the 10 year minimum requirement for OAS. You do not have to be retired to receive the basic OAS but you must apply.

What is the Guaranteed Income Supplement?

If you have little or no income besides your Old Age Security pension, you may be able to receive a monthly Guaranteed Income Supplement (GIS). If you are married, your spouse's income will be considered, along with yours, in deciding the amount of GIS you will receive.



How does a person qualify for the Spouse's Allowance?

This monthly payment provides more financial assistance to a couple who have a limited income.

You may qualify for a Spouse's Allowance (SPA) if:

- you are between 60 and 65 years old;
- you are the spouse of someone who is receiving the OAS;
- the combined income of you and your spouse must not go over a certain limit;
- you must have lived in Canada for a total of 10 years after reaching age 18.

If your spouse dies, you may continue to receive this benefit. The allowance continues until you reach age 65 and can receive your own OAS pension or until you remarry.

What are the qualification requirements for the Widowed Spouse's Allowance?

The qualification requirements are the same as those for a Spouse's Allowance, except that instead of being the spouse of someone receiving the OAS, you must be a widow or widower. The amount of the allowance depends on your income. This allowance continues until you reach 65 or until you remarry.

What is the Canada Pension Plan?

The Canada Pension Plan (CPP) is a plan to which most working Canadians and their employers must contribute. Self employed people also contribute.

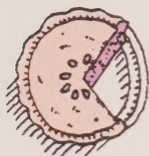
The Plan provides for the payment of a retirement pension, survivors' benefits, children's benefits, disability benefits and a death benefit. The amount of these benefits is related to the contributor's earnings and contributions to the Plan. CPP covers virtually all working Canadians, except for those living in Quebec. Quebec workers come under the Quebec Pension Plan.

If you are divorced, separated or have had a legal annulment, you should know that the CPP pension credits which were earned by you or your spouse during a legal or common-law marriage, may be divided equally between you. In order to divide CPP pension credits you must meet certain conditions. Credits are used to determine whether or not you are eligible for benefits and in most cases how much you are eligible for.

Won't government pension plans pay for my retirement?

Guaranteed Income Supplement and Spouse's Allowance or Widowed Spouse's Allowance are designed to provide basic assistance to help people who have little or no income.

Canada Pension Plan and Old Age Security will help you pay your bills, but they are not intended to be your sole source of income. Every three months the amount you receive from OAS is adjusted to keep pace with prices. The adjustment for CPP is made each January. As of October 1, 1990 if you retired, the most you could receive from Old Age Security is about \$350. If you qualified for the



maximum amount of Canada Pension you would receive \$580 a month.

If you have not worked and contributed regularly since 1966 you will receive less than the maximum from Canada Pension. Your benefits from Canada Pension also depend on how much you earned while contributing. If you have been working for many years, you probably earn much more a month and could not live comfortably on the amount. Canada Pension Plan retirement benefits equal approximately 25 per cent of your average monthly earnings up to the maximum of \$580.

Many working women qualify for very small CPP benefits or none at all. This is because women are often out of the work-force for periods of time or working part-time and in many cases tend to have lower incomes than men. Women also statistically have longer life expectancies than men which means their retirement savings have to last longer. Women must plan carefully for their retirement to make sure they have enough money to live comfortably.

How much is enough?

What will it cost me to live when I retire?

That's difficult to say. It will depend on your health and how you plan to live during your retirement years. Look at what it's costing you now. Remember you will still have all the basic expenses when you retire – food, housing, clothing, transportation. And with prices going up, it's likely the basics will cost you more. Will you want your lifestyle to

be close to what it was in your peak earning years?
All the more reason to plan now.

I have a pension plan at work. That should give me about an additional \$350 per month. Do I need to worry?

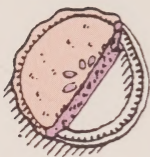
Yes you do. Private pension plans are not like Canada Pension Plan and Old Age Security. Canada Pension Plan and Old Age Security go up when prices go up. Most private pension plans do not. The cost of housing, food and transportation will get higher every year, but your pension may stay the same.

But how long am I likely to live after age 65 anyway?

Statistically women can live longer than men. And if you're a 65-year-old woman today your life expectancy is about another 19 years. A man who is 65 today has a life expectancy of almost 15 years. People are living longer than ever before. Your retirement savings may need to last you many years after retirement.

When I retire I plan to sell my business and live on the proceeds. Do I still need to save for retirement?

The economy could be in a slow-down or your business may not be in demand by the time you're ready to retire. What if you can't sell or don't get as much money for selling your business as you had planned? Selling your business may be a good



source of income, but it should not be your only source.

My grandparents lived with my family. Won't my children take care of me when I'm older?

Not necessarily. Although many families live together, Ontario is a rapidly changing society. Seniors can't depend on their children as much as they used to. Your children may be running a business, paying for their house or their children's education. They could move to another city or country.

Advice in your language.

Where can I find out what to do?

You have many places to get help.

Talk to:

- your employer
- friends and relatives
- community leaders
- your local financial advisor
- local women's groups

If you would like an application form or further information on federal pension programs, contact your local Income Security Programs Client Service Centre listed under Health and Welfare in the Government of Canada section of most telephone directories.

Local community groups and your financial institution may be able to speak to you in the language you choose. They can help you get started.

Prices go up but benefits may not.

Retirement saving plans can be difficult to understand. Here is an easy guide to the basics...

What is a private pension plan?

Basically, this is money set aside by some employers to provide a regular income for employees when they retire. There are two types of pension plans offered by employers – defined benefit and defined contribution or money purchase plans. In both types of plans either you and your employer contribute money, or only your employer puts money in. Whether or not you have to contribute depends upon how your employer sets up the plan.

Defined benefit plan – At the time you join a defined benefit plan, your employer tells you how much you will receive when you retire, based on how long you work for the company and how much you earn.

Defined contribution or money-purchase plan – The money put into the plan is invested. The amount you receive when you retire depends upon how much the money earns.

What you should know.

Cost of living – Prices go up every year for clothing, rent, food, housing and transit. But many pension plan benefits paid by employers do not go up automatically when prices go up. This means every year your pension could buy less and less.



Benefits for your spouse – It is important to find out if you will continue to receive money if you live longer than your spouse, if your spouse has a pension plan.

Divorce – A pension plan is an asset like your car or bank account. If you are divorced from your spouse a pension plan can be divided between you equally.

What you can do.

Find out if your company has a pension plan. Find out what kind of plan it is and how much you will receive when you retire. Find out if your pension will continue if your spouse has to manage alone. Once you know how much you will receive when you retire, you will know how much more you need to save.

RRSPs shelter your savings from tax.

How can RRSPs help me save?

In Canada, you pay tax based on how much you earn. When you retire you will generally pay much less tax than you do today because your income will probably be much lower. Registered Retirement Savings Plans (RRSPs) help you take advantage of this by sheltering some of your savings for retirement from the higher taxes you are paying now. The government does not tax you on the savings you put into an RRSP – when you put them in. You pay tax when you retire and take out money from the RRSP to live – generally at a much lower tax rate. You are allowed to put money into an RRSP up to the end of the year in which you turn 71.

If you earn an income, a spousal RRSP allows you to put savings into an RRSP for your spouse, but subtract them from **your** taxable income.

Some employers also offer an employer-sponsored RRSP or a group RRSP. With this type of RRSP some of your paycheque goes directly into the RRSP each month, before tax is deducted.

What you should know.

In 1990, if you have no pension plan at work, you can save in an RRSP: 20 per cent of your income or \$7,500 per year, whichever is less.

If you are a member of a private pension plan to which both you and your employer are contributing, you may contribute up to \$3,500 to an RRSP – minus whatever you are contributing to your pension plan yourself. If for example you contribute \$2,000 to your private pension plan you could contribute \$1,500 to an RRSP, before tax is deducted.

In 1991 you can save: 18 per cent of your 1990 earned income or \$11,500, whichever is less.

If you have a private pension plan and want to participate in an RRSP you cannot contribute the full amount. What you can contribute depends on what you are already contributing to your pension plan.

What you can do.

Ask your financial institution about the possibilities. Find out what interest rates are offered and how each plan works. Find out how much you can contribute.



Annuities – a guaranteed lifetime income.

What happens to my RRSP when I retire?

Before the end of the year in which you turn 71 you must convert your RRSP into a source of income.

If your RRSP came about because money from your pension plan with a previous employer was transferred into an RRSP – it is a locked-in RRSP. This means it can only be used to provide an annuity. Pension Act Regulations may be amended so that money coming from locked-in RRSPs can be transferred to a new vehicle known as a Life Income Fund (LIF).

If your RRSP is not locked-in it can be transferred into a Registered Retirement Income Fund (RRIF), an annuity, or cash. If you do not choose a RRIF, or an annuity you will then pay tax on the full RRSP amount in the following year.

What is an annuity?

An annuity is a contract that you purchase with a lump sum of money today. In return you will receive a series of regular payments. These payments are made up of the income you earn from the money in the annuity. The money in your RRSP is paid untaxed into your annuity and your annuity payments only become taxable in the year that you receive them.

Annuity terms can vary – they can be for your life or your spouse's life or for a specific period of time. The payments are usually monthly. You earn the same interest rate over the entire term of the annuity.

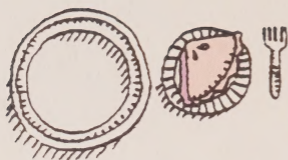
The amount of the payments depends on three things:

1. the amount of money you put in;
2. the interest rate that the annuity earns at the time of purchase; and
3. the length of time that the annuity is in force.

If your annuity was purchased with the money in a locked-in RRSP, your benefits will be the same whether you are male or female. However if the money is from a regular RRSP women will receive smaller payments than men. This is because women's life expectancy is longer and the money used to purchase the annuity will have to last longer.

What is a Registered Retirement Income Fund (RRIF)?

A RRIF is a vehicle into which you transfer some or all of your RRSP. Your money is tax deferred so you pay tax only on the amount withdrawn each year from the plan. A RRIF can be set up any time. You don't have to wait until you're 71. But whenever you start a RRIF, a minimum amount of income has to be taken out in each year, after the year of purchase. You can withdraw money from your RRIF as you need it. RRIF payments must stop no later than the end of the year in which you reach age 90. You are taxed on the amount you withdraw each month. However if you withdraw the minimum amount each year you can further defer tax by leaving your interest in the RRIF.



How much income you can earn will depend on how much you put into the RRIF and how much interest it earns.

What you should know.

Annuities – The annuity guarantees you regular payments for the rest of your life. If you want payments to continue if your spouse outlives you, you must purchase a joint annuity. Most annuity payments are fixed. However you can buy an annuity that will increase as prices increase.

RRIF – You can only keep your money in a RRIF until you are 90-years-old. You could then put any remaining money in an annuity.

What you can do.

Talk to your local financial institution. Find out more about annuities, LIFs and RRIFs. Decide what is right for you.

Start planning and saving for your retirement today, so you can handle your responsibilities when you're older. Remember, you can never be too young, or too close to retirement to start saving. The important thing is that you save.

Retirement – your responsibility.





Pension
Commission
of Ontario

Commission des
régimes de retraite
de l'Ontario